Minute of meeting

100% Business Rates Retention
Business Interests Sub-Group (1st meeting)

Wednesday 15 June 2016
13.00 – 15.00
Local Government House

[An attendee list is at **Annex A**]

1. The Chair began by introducing the programme of reform, and highlighting the overall process and timetable. Initial points raised on this included:
   - The fit of the reform with existing devolution and City Deals
   - That redistribution would likely be the main concern for local government and the key determinant in how this reform plays out, as opposed to the incentive to promote local growth and attract business. SH highlighted the local authority ambition and appetite for the reforms, whilst NM noted that the current focus in the sector was on the responsibilities to be devolved and the system design as opposed to the redistribution. The Chair also clarified that 100% retention of business rates referred to the retention by the sector as a whole, rather than within each authority.
   - The dependence of local authority finances on the performance of single large ratepayers, and therefore the politicisation of ratepayer performance. In response the Chair highlighted the mechanisms being considered to share risk in the system, and the level of risk that is worth bearing for the reward of growth.
   - The possibility of local authorities 'gaming' the system and, for example, delaying planning permissions in the run up to a reset in order to subsequently profit from a large bump in growth. The Chair noted that this would likely be a high risk activity and there was no evidence of such activity so far.

2. The section on the **responsibilities** to be devolved to local government was introduced, covering the proposed criteria for devolution and highlighting some potential candidates for devolution already under consideration. Key points raised in response included:
   - How far the criteria would be used to formally assess the suitability of responsibilities and how this could account for some responsibilities being suitable for certain areas and not others. The Chair clarified that the criteria should be viewed as guiding principles, and that the system could cope with services being devolved in some areas but not others, and that this could be managed through carrying out needs assessments for individual services where they were devolved, and that this would effectively mean there were greater needs in that area.
   - That local authorities must be given the appropriate levers to grow their local economies through the devolution of growth related responsibilities (as opposed to demand-led services which could outstrip the supply of business rates growth).

3. The section on the **design of the 100% retention** system was introduced, highlighting technical issues such as the sharing of business rates income across different tiers of local government and the management of risk. The group noted that this section was less directly relevant to their interests, but discussed:
   - Whether power stations might be included in the Central List to manage the risk of their volatility, or conversely whether the direct link between the incentive to build new power stations and the growth this brings to an area should be preserved. More generally, the group agreed that the more local authorities could directly benefit from unpopular planning decisions they may have to make, the better.
   - The uncertainty that resets could cause for new infrastructure investment in a particular area, and the possibility of government providing a pot of funding to provide local authorities with more certainty during times of volatility. The group also considered that longer reset periods, which allow authorities to retain more growth, would make tax increment financing more viable.

4. The section on the power to **reduce the multiplier** was introduced. Key points raised included:
   - The potential for unfair competition generated by one large area systematically reducing the multiplier to attract business (and functioning like a giant Enterprise Zone). At the same time, members welcomed the prospect of tax competition.
   - How this freedom would interact with the redistribution mechanism, and whether other local authorities would effectively be paying for another area's reductions. Officials confirmed that if an authority reduces the multiplier it would have to fund this by reducing its own spending.
   - The potential state aid implications for reducing the multiplier in a targeted area such as a high street, as this could have more of a beneficial impact than doing it across a whole area. The group suggested that the government should address the issue of state aid in the consultation document.
   - It was proposed that authorities may wish to vary empty property rates on new buildings to provide assurance to developers and encourage new developments in certain parts of the country. Officials suggested that authorities were already equipped to make such provision under local discount powers.
   - Overall this power might be unlikely to be used as the reductions local authorities could offer would realistically be too small to influence substantial decisions from businesses, and the incentive for local authorities to do this would be diluted as they approached a reset period.

5. Lastly, the group discussed the **infrastructure levy**:
   Concerns:
   - Whether LEPs were the correct vehicle to provide scrutiny and transparency for this tax raising decision.
   - Members suggested that business involvement could be strengthened in any case with reference to the Cabinet Office guidelines on consultations for national policy and local plans etc. This would be more akin to the guidelines

and accountability around Business Improvement Districts, which were seen to work well and which businesses have willingly voted for on numerous occasions.
- That the infrastructure levy should include an ‘additionality’ requirement, as in Business Rates Supplement powers, so that any proceeds of a levy could not be used for spending which would have occurred without the levy.
- That realistically the funds raised might only fund a small infrastructure project within one local area, and that it would be contentious to charge other areas to do this.

Points raised in response:

- The Chair noted that some of the parameters for the operation of tax flexibilities were already set by the Chancellor’s announcement at Autumn Statement 2015.
- That the LEP would only have a veto power, so the accountability of the Mayor and the prospect of re-election would provide a level of scrutiny and accountability for this decision.
- That the amount of funding actually raised from a levy would likely not be proportionate the time and costs associated with conducting a ballot, although the levy could be used to support longer term borrowing.
- The intention behind the move towards Combined Authorities and LEPs was to bring larger areas together to take strategic decisions about developments which would benefit the region as a whole, rather than being guided by local politics, even if this development was small in size like a roundabout or a road. A ballot would simply encourage this local mind-set.

6. In closing the meeting, the Chair confirmed that the July consultation document would be open in nature and would seek to **reflect the points made** in this meeting in its argumentation. The group agreed that a further **meeting should take place in July** to discuss the consultation proposals and likely responses in more detail.

Annex A – Attendee List

Nominee	**Organisation**
Stuart Hoggan (Co-Chair)	DCLG
Nicola Morton (Co-Chair)	Local Government Association
Stephen Herring	Institute of Directors
Edward Woodall	Association of Convenience Stores
Steve Dowling	Association of Convenience Stores
Peter Haslam	Nuclear Industry Association
Philip Cox	Cheshire and Warrington LEP
Jim Hubbard	British Retail Consortium
Ion Fletcher	British Property Federation
Dominic Williams	Federation of Small Businesses
Mike Spicer	British Chambers of Commerce
Dilip Shah	Confederation of British Industry
David McDonald	DCLG
Calum Montell-Boyd	DCLG
Suzanne Clarke	DCLG
Ece Lynch	DCLG
Mark Johnson	Local Government Association